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25 January 1964

MEMORANDUM FOR THE ACTING DIRECTOR

SUBJECT: Cuba - A Reappraisal of the Situation and
of US Policy

1. This paper is for your information and is in
response to your memorandum of 14 January.

Where We Are

2. Castro's control of Cuba is based upon the fanatic loyalty and discipline of a very small element of the population. His domestic position has eroded during the past year and he has had to resort to increasingly harsh measures of repression in order to maintain control. (An appraisal of Castro's situation and prospects prepared by O/NE and coordinated within the Agency is attached as Annex A).

3. Despite his problems within Cuba, Castro's prospects appear brighter as of early 1964 than they did even as recently as a few months ago.

4. This is largely due to several developments abroad which have given him an important psychological and political lift:

a. The increase in Cuban convertible currency reserves (from \$20 million to about \$100 million during the year) as a result of high sugar prices on the world market.

b. The Soviet-Cuban trade protocol for 1964 and renewed Soviet assurances of substantial aid and trade.

c. The British bus deal and the apparent eagerness of Free World countries to trade with Cuba on generous credit terms. This represents an important political and psychological triumph for Castro; its erosive effects are already evident.

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d. The recent events in Panama which, on the one hand, will add zest and fervor to Castroite activity elsewhere in Latin America, and, on the other, will dissipate at least some of the salutary effects within the OAS which followed the discovery of the Venezuelan arms cache.

e. The revolt in Zanzibar, however large or small Castro's actual role, will add to his stature as a revolutionary with an appeal and an influence extending beyond the confines of the Western Hemisphere.

Where We Stand

5. It remains the ultimate US objective to replace the Castro regime with one compatible with US objectives in Cuba and Latin America. To accomplish this, we are attempting, by all means short of military force, to create a situation in which Castro will be overthrown from within, his capabilities for subversion elsewhere will be weakened, and his Soviet ally will forsake him as being too expensive and unreliable a client. In short, our present objective precludes accommodation with Castro and our present policy precludes the use of military force to displace him.

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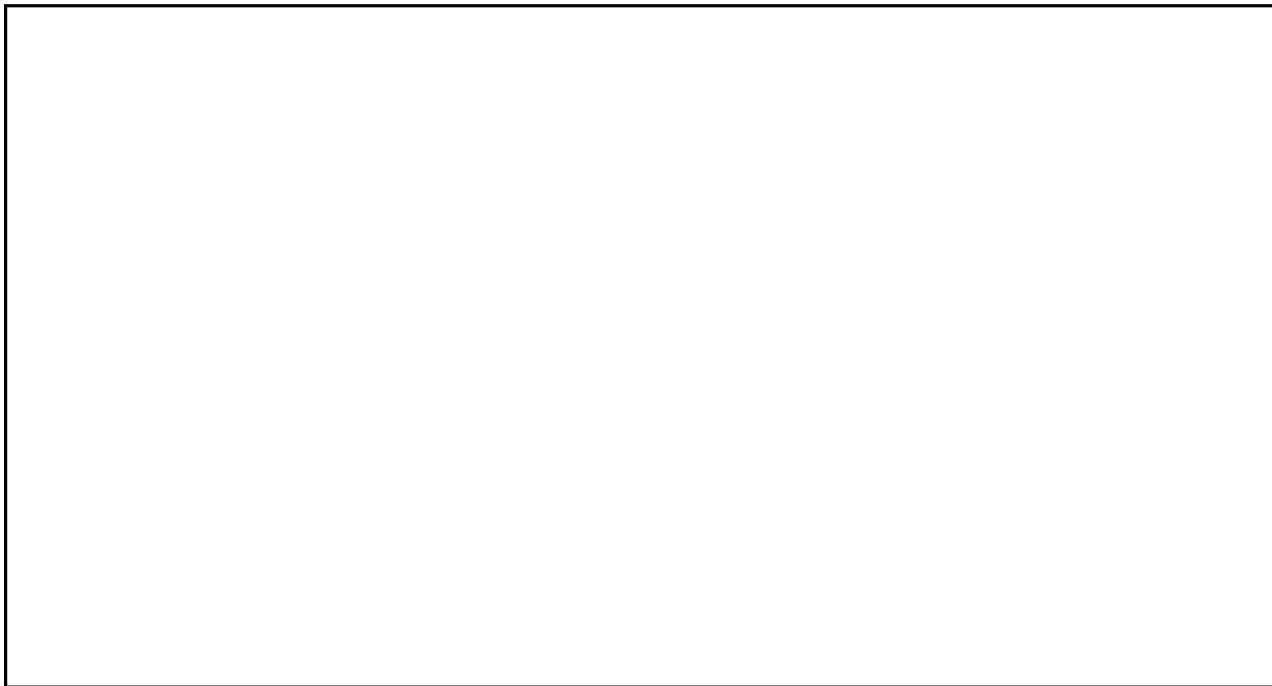
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Chief,

(DD/P)

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CHESTER L. COOPER
Assistant Deputy Director (Intelligence)
(Policy Support)

Attachment

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CENTRAL INTELLIGENCE AGENCY

ANNEX

23 January 1964

MEMORANDUM

SUBJECT: SITUATION AND PROSPECTS OF THE CASTRO REGIME

The Basic Economic Situation

1. Its dismal economic performance has long been a primary weakness of the Castro regime. We estimate that Cuban gross national product had, by the end of 1963, fallen 10 to 15 percent below the 1958 level. Living conditions are depressed; the economy, stagnant. Only massive infusions of economic aid from the Bloc -- very largely from the USSR -- have prevented the situation from becoming worse.

2. Administration of the economy is overcentralized; managers at lower levels are not given sufficient responsibility; administrators at higher levels cannot keep up with the flow of decisions demanding their attention. There is a severe shortage of managerial talent

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and trained technicians. There is a persistent lack of spare parts for all kinds of machinery and equipment. A shortage of labor in Cuban agriculture has developed since the revolution, while morale and productivity is low throughout the entire labor force.

3. The regime is relying increasingly on coercion in attacking these problems: it has begun to impose work norms and standardized wages throughout the industrial sector, and it is using a new obligatory military service program to round up unreliaables and assign them to military-disciplined labor battalions for agricultural work. If the regime presses such measures too far too fast and administers them dogmatically or capriciously, the result may be a sharp increase in labor discontent, a step-up in deliberate sabotage, and an outbreak of small-scale worker demonstrations. In any case its relationship with the labor force will remain a primary internal weakness of the regime for some time to come.

Recent Trade Developments

4. Despite this array of serious and continuing problems, there are a number of indications of somewhat better prospects

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for the Cuban economy in the next year or two. The value of Cuban exports to the free world was considerably larger in 1963 than 1962, almost wholly as a result of the sharp rise in sugar prices.* (The average price for Cuban sugar sold to free world customers was about 6 cents per pound in 1963 compared with about 3 cents in 1962.) This permitted the regime to expand its convertible currency reserves from some \$20 million in January 1963 to almost \$100 million in January 1964. The further rise will probably permit Cuba -- despite Hurricane Flora and the relatively small sugar crop in prospect -- to expand export earnings somewhat further in 1964.

5. The Castro regime, with some cash in pocket and reasonably good prospects for future export earnings, has additional bargaining power and trade flexibility, as well as the wherewithal for some increase in imports from Western sources. Cuba's improved foreign exchange situation adds to the mounting pressure among Western nations not only to expand trade with Cuba, but to extend Cuba

* See Table 1, Direction of Cuban Exports; Table 2, Composition of Cuban Exports; Table 3, Volume and Direction of Sugar Exports; Table 4, Sources of Cuban Imports; Table 5, Composition of Cuban Imports.

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credit. In this context the timing, the magnitude, and the five-year credit terms of the British bus deal represent an important breakthrough for the Castro regime. The psychological boost it provides is much greater than the economic importance.

6. The improvement in Cuba's trade position in the West has been accompanied by a continuation of the Soviet commitment to maintain its trade and aid to Cuba at substantial levels. The Soviet-Cuban trade protocol for 1964, signed on 11 January in Havana, specifies a trade turnover between the two countries 22 percent above that in 1963. This suggests that Soviet exports to Cuba -- about 40 percent of which will be furnished on credit -- will be slightly higher than the record level of 1962 and at least 10 percent higher than in 1963. Moreover, the long-range trade agreement concluded during Castro's current visit provides for Soviet purchases of large and increasing amounts of Cuban sugar from 1965 through 1970 at six cents per pound.*

7. The improved foreign trade situation should enable the Castro regime to put a brake to the economic decline of recent years. It gives the regime a political-psychological lift and a rationale for claiming that US attempts to isolate and impoverish Cuba have failed. But gains in output are likely to be slow in coming, and improvements in living conditions even slower.

* The USSR is to purchase 2.1 million tons in 1965, 3 million in 1966, 4 million in 1967, and 5 million in each of the years 1968, 1969, and 1970. This will help to ensure the Castro regime of steadily increasing income from sugar exports, provided the regime's efforts to expand production are successful. The price of six cents per pound is what the Soviets have been paying for Cuban sugar since mid-1963.

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Military Forces

8. There are no organized Soviet combat units left in Cuba, and we estimate the number of Soviet military personnel at between 4,000 and 7,000. Most of these are associated with the air defense system on which Cubans are being trained in substantial numbers. It is probable, though not certain, that the Cubans will assume control of the entire system, including the surface-to-air missiles, by the middle of this year. As Soviet training programs are completed, most Soviet personnel probably will be withdrawn. Meanwhile, the Cubans are continuing to receive from the USSR frequent deliveries of ammunition, spare parts and some new equipment, as well as such military-related items as trucks, helicopters and light planes.

9. The capabilities of the Cuban armed forces have improved during the past year as they have assumed control over a wide variety of advanced Soviet military equipment. In addition, the Cubans have created two special units in an effort to improve their capability to cope with internal insurrection and exile raids. However, the Cubans have not been able to prevent externally initiated raids, which tend to keep alive the hopes of opposition elements on the island. Guerrilla activity remains scattered and uncoordinated though spontaneous acts of sabotage are common.

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Political Matters

10. The regime's need to turn increasingly to coercion and, more specifically, its actions over the past few months in nationalizing medium-size farms, in establishing obligatory military service, and in pressing ahead with its work norm program, will further erode its popular support. At present, however, there appears to be no individual or group on the political scene able to pose a serious threat to Fidel.

11. Castro's speech on 2 January, fifth anniversary of his revolution, was unusually muted in tone in regard to the policies of the US and to Cuba's revolutionary role in Latin America. He spent considerable time explaining his support for the Soviet policy of coexistence and indicating willingness to normalize relations with the US -- if Washington is willing to make the first move and accept his terms.

12. We believe that, at least in part, this speech reflected the advice the Soviets have pressed upon Castro to exercise restraint; he must see it as essential to maintain reasonably close relations with the Soviet leadership because of his continuing need for economic and military aid. We believe that he will also

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seek to demonstrate independence of action in various ways, partly because this is his personal impulse but also because he is shrewd enough to see that this helps to keep the Soviets generous. At the same time, he will probably give high priority to efforts to establish further trade arrangements with Western suppliers, trying to use the deals already concluded to undermine the US effort to keep Cuba isolated. This economic opening to the West almost certainly has Soviet approval.

13. Castro's public posture and utterances with respect to revolution in Latin America may vary from time to time in volume and shrillness as his aim and Moscow's interests dictate. Nevertheless, the basic rationale of his regime, and his own desire for future glory, are keyed to the idea that the Cuba revolution is a precursor for revolution in all Latin America. The mere existence of Castro gives encouragement to revolutionary upheaval in other states of Latin America, many of which are vulnerable to such movements. Moreover, Castro provides training in doctrine and guerrilla warfare, and he has furnished money, encouragement, organizational guidance, arms and equipment to revolutionaries in the area.

14. We believe Castro's capability to initiate a leftist insurrection in other states is limited, but once such an insurrection has begun, he can exploit and exacerbate it. His capabilities to do so at least in the smaller states are slowly increasing. It is likely that Fidel, during his current visit with Khrushchev, has cited Panama as indicative of the kind of situation which should be exploited.

Table 1
Direction of Cuban Exports, 1958-1963 (F.O.B.)

	(millions of US \$)					
	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963 (est)</u>
Communist Bloc	<u>15</u>	<u>15</u>	<u>150</u>	<u>480</u>	<u>400</u>	<u>285</u>
USSR	15	15	100	310	220	155
Communist China	negl.	negl.	20	70	90	50
Other	negl.	negl.	30	100	90	80
Free World Clearing	<u>32</u>	<u>20</u>	<u>30</u>	<u>24</u>	<u>41</u>	<u>56</u>
Morocco	15	14	18	6	20	30
United Arab Republic	negl.	negl.	1	9	8	9
Spain	17	6	9	8	8	15
Tunisia	negl.	negl.	2	1	5	2
Free World Convertible	<u>687</u>	<u>605</u>	<u>440</u>	<u>121</u>	<u>79</u>	<u>134</u>
USA	528	475	357	35	7	-
Canada	19	12	7	5	3	10
UK	45	26	18	13	18	31
France	7	7	12	1	2	3
Netherlands	15	8	11	4	3	15
Italy	2	1	1	negl.	negl.	30
West Germany	6	11	9	2	5	3
Japan	45	31	16	21	32	18
Other	20	34	9	40	9	24
Grand Total	<u>734</u>	<u>640</u>	<u>620</u>	<u>625</u>	<u>520</u>	<u>475</u>

Table 2
Composition of Cuban Exports, 1957-1963

	(millions of US \$)						
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963 (Est.)</u>
Sugar	656	594	494	500	540	430	400
Tobacco	48	50	55	50	39	25	20
Minerals ^{a/}	49	44	25	25	333	25	35
Other	55	46	66	45	13	40	20
Total	<u>808</u>	<u>734</u>	<u>640</u>	<u>620</u>	<u>625</u>	<u>520</u>	<u>475</u>

^{a/} Primarily nickel.

Table 3
Volume and Direction of Cuban Sugar Exports, 1958-1963

	(thousands of metric tons)					
	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963 (Est.)</u>
Communist Bloc	<u>249</u>	<u>274</u>	<u>2,342</u>	<u>4,823</u>	<u>3,689</u>	<u>2,200</u>
USSR	188	274	1,577	3,303	2,112	1,200
European Satellites	11	0	215	456	615	500
Communist China	50	0	550	1,064	962	500
Free World	<u>5,383</u>	<u>4,678</u>	<u>3,278</u>	<u>1,587</u>	<u>1,441</u>	<u>1,200</u>
Grand Total	<u>5,632</u>	<u>4,952</u>	<u>5,620</u>	<u>6,410</u>	<u>5,130</u>	<u>3,400</u>

Table 4
Sources of Cuban Imports, 1958-1963 (C.I.F.) ^{a/}

	(millions of US \$)					
	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962^{b/}</u>	<u>1963 (Est.)^{b/}</u>
Communist Bloc	<u>negl.</u>	<u>negl.</u>	<u>126</u>	<u>511</u>	<u>645</u>	<u>620</u>
USSR	negl.	negl.	80	310	420	385
Communist China	negl.	negl.	17	86	95	95
Other	negl.	negl.	29	115	130	140
Free World Clearing	<u>13</u>	<u>9</u>	<u>21</u>	<u>20</u>	<u>20</u>	<u>24</u>
Morocco	negl.	negl.	negl.	3	6	9
United Arab Republic	negl.	negl.	10	11	9	10
Spain	13	9	11	5	2	5
Tunisia	negl.	negl.	negl.	1	3	negl.
Free World Convertible	<u>837</u>	<u>741</u>	<u>409</u>	<u>173</u>	<u>85</u>	<u>86</u>
US	602	482	245	15	5	negl.
Canada	20	18	15	33	11	9
UK	29	47	23	15	8	8
France	10	16	12	6	2	7
Netherlands	7	9	8	12	9	14
Italy	12	9	6	4	2	2
West Germany	34	33	16	13	6	6
Japan	6	11	7	13	12	4
Other	117	116	77	62	30	36
Grand Total	<u>850</u>	<u>750</u>	<u>556</u>	<u>704</u>	<u>750</u>	<u>730</u>

- a. In converting from f.o.b. to c.i.f. values for Cuban imports. A standard factor of 10 percent of f.o.b. value for Free World countries and 15 percent for Bloc countries was applied.
- b. Does not include US ransom payments. If these were included, 1962 imports would be valued at \$760 million and 1963 imports would amount to about \$780 million.

Table 5

Composition of Cuban Imports, 1958 and 1960-1963

	(millions of \$ C.I.F.)				
	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963 (Est.)</u>
Food	170	145	148	152	175
Other Consumer Goods	161	33	40	35	44
Raw Materials and Intermediate Goods	212	200	246	228	212
Fuel	85	78	70	69	73
Capital Goods	222	100	200	266	226
Total	<u>850</u>	<u>556</u>	<u>704</u>	<u>750</u>	<u>730</u>

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Executive Registry
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14 January 1964

MEMORANDUM FOR: Deputy Director (Intelligence)

1. In connection with the forthcoming Presidential review of U. S. Cuban policy, it will be necessary to provide the DCI with an independent CIA assessment of the current Cuban situation and outlook and with recommended courses of action which the DCI can use as appropriate.

25X1 2. I would like DD/I to assemble, in conjunction with ONE, [] and other offices as necessary, the assessment of the situation in Cuba and its outlook, with particular emphasis on the growing volume of trade between Cuba and the free world and the effect this has on the Cuban future. The memo should also include updated descriptions of the Cuban political and military situations.

25X1 3. In the light of this assessment, the same task force which prepared in December 1963 a think piece on proposed courses of action in Cuba should be reactivated to provide a fresh reading of proposed U. S. policies. This would involve DD/I working in close cooperation []

4. I suggest that this project be completed in about 10 days' time.

Marshall S. Carter
Lieutenant General, USA
Deputy Director

25X1 Copies to: DD/P
Chief, []
Asst Dir
EA/DCI

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Suspense: 24 January